

Executive Director's Report

A. BUSINESS REVIEW

Overall Performance this Year

The Group achieved a tremendous growth for the year ended 31 March 2002. This year was a competitive, but encouraging for the general pharmaceutical industry worldwide. China's entry into the World Trade Organization will attract more foreign manufacturers and distributors to market their pharmaceutical products in the PRC. Despite strong competition, the overall performance of the Group this year was marked by organic growth.

The Group remains resolute in our dual objectives set last year: to continue the delivery of positive contribution; and endeavour to explore opportunities to sustain growth.

Surge in Turnover

Revenue grew by 48% with turnover increased from approximately HK\$135,159,000 for 2001 to turnover of approximately HK\$199,499,000 for the current year ended 31 March 2002.

Significant Increase in Turnover for Trading Sector

The distribution of imported pharmaceuticals has been one of the major activity contributing to the robust revenue growth for the Group. Revenue from this sector reached approximately HK\$116,813,000 (2001: HK\$77,106,000), representing a 51% increase over 2001.

A major imported pharmaceutical product for the Group, used in the treatment for vascular, traumatic lesions of the Central Nervous System and Parkinson's disease, continues to contribute significantly to turnover and profits. The efficacy of this drug has long been well recognized and received by medical specialists and medical doctors in the PRC. Total revenue for this category generated 48% (2001: 31%) of total Group's turnover.

New and intensified efforts to promote product efficacy knowledge by intensively disseminating to new cities created heightened demands. A total of 44 symposiums were held throughout the PRC on Central Nervous System, Cerebrovascular, Myocardiac Disorder, Anti-thrombotic and Haematopoietic range of products.

Strong Growth in Turnover for Manufacturing Sector

Turnover from manufacturing sector recorded approximately HK\$82,686,000 for the current year, representing a 42% increase over 2001. Continuous implementation of intensive marketing campaigns focusing on product and brand recognition for the Immunologicals, Cerebrovasculars, Anti-thrombotics and Dermatologicals therapeutic range have been successful.

Three major self-manufactured drugs made significant contributions to the Group's turnover: P-transfer factor, "洲邦" and "腦安泰". They represented 27%, 5% and 2% of Group's total turnover respectively. P-transfer factor is a biological drug produced from porcine extract for immunology use. It has been a major and well-accepted product in Mainland China for its remarkable efficacy and proven safety. Sales growth has been steadily increasing over the years.

Marketing teams have been expanded, with targets of increasing sales volume and brand recognition amongst existing users as well as identifying new markets. The teams also aim to extend sales to second tiered cities and hospitals which have contributed to new sales breakthroughs.

Surge in Profit

Profit attributable to shareholders for 2002 was approximately HK\$42,002,000, representing a 104% growth from that of last financial year of approximately HK\$20,540,000. The significant growth in profit is attributable to the increase in turnover as well as efficient control on administrative overheads.



Mr. Ho Yu Ling

Executive Director

Increase in Profit attributed from Trading Sector

A 52% growth in profit at HK\$30,526,000 is recorded for 2002 (2001: HK\$20,075,000) for trading sector. Efforts to increase sales and profit for this year was well reflected from the management's allocation of resources, funding and promotional activities focusing on products with high returns. Resources were directed to targeted new potential sales areas whilst still keeping a close reign on areas where we command high market share. More efficient cost control program also lowered the portion of administrative overheads. Intensive marketing campaigns launched have caused heightened demand for the Group's distributed products in the market. The efficacy of the Group's distributed products is well recognized by local medical experts as well as medical doctors. In addition, the technology behind the manufacturing process of specialty drugs liken to those distributed by the Group are highly sophisticated. This prevents any close replicates to be made available by local manufacturers at competitive cost. These factors all contribute to the ability to command sustainable prices and profit margins for the Group's imported pharmaceuticals.

Substantial Growth in Profit attributed from Manufacturing Sector

Strong growth of 76% in profit attributed from manufacturing sector at HK\$28,470,000 is recorded for 2002 (2001: HK\$16,154,000) for self-manufactured products. Production efficiency was emphasized through continual conduction of training programs, tight controls for procuring raw materials and quality control initiations to contain indirect and direct manufacturing costs. These allowed room for increased operating profits.

B. OUTLOOK AND NEW DEVELOPMENTS

Economic developments in the PRC, particularly in the area of pharmaceutical and the growing genomic industries open vast opportunities to the Group. We will keep striving for "balances" to our long term goals and continue to sustain the growth momentum through new corporate directions with long term prospectives.

Continue Investing in Quality Marketing and Promotional Activities and Explore New Distribution Channels

Successful marketing and promotional efforts initiated last year will continue in both imported and self-manufactured pharmaceuticals. In addition, the Group is seeking to widen its distribution channels by applying to regulatory bodies for "洲邦" and "腦安泰" to be sold "over the counter" in dispensaries.

Increased Production Capacity from New GMP Factory in Changchun, Jilin Province, China

Revenue contribution from self-manufactured products providing good gross margins and profit margins have been growing steadily over the years.

An area of 18,969 square meters of land was purchased last year, on which the building of a new factory housing production, warehouse, sales and administrative departments covering built up area of 9,767 square meters was successfully completed in January 2002. The new factory has obtained the Good Manufacturing Practice compliance ("GMP") certification by the State Drug Authority in June 2002. This new factory boasts production capacity for self-manufactured pharmaceutical products by five times with a capacity to run five production lines simultaneously for vial form, injections and oral solution manufacturing. Streamlined production processes to keep cost at efficient levels, larger production volume and seeking new product range for both manufacturing entities located in Changchun will be pursued.

Extrawell & United Gene and Contributions from New Genomic Subsidiaries

In June 2001, United Gene Holdings Limited acquired interests of the Company through its subsidiaries and became the Company's largest shareholder. United Gene is a biotechnology company, it owns over 20 subsidiaries which specialize in genomic technology, development and manufacturing of genechips. Research and development works in pharmacogenomics provided by United Gene Group, will develop greater variety of new pharmaceutical products to cater for the growing China and the overseas market. Management believes this strategic alliance may offer new opportunities for the Group to commercially tap onto the specialized genetic researched medicinal products.

C. FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31 March 2002, the Group had bank borrowings of HK\$47,292,000. All these bank borrowings are repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of approximately HK\$26,480,000 (2001: HK\$13,345,000); corporate guarantees from the Company and certain subsidiaries of the Company; and legal charges over certain leasehold land and buildings, and plant and machinery of a subsidiary of the Company.

The Group had total cash and bank balances of approximately HK\$56,208,000 as at 31 March 2002 (2001: approximately HK\$38,236,000). After deducting bank loans and overdrafts of approximately HK\$47,292,000 (2001: approximately HK\$19,820,000), the Group recorded a net cash balance of approximately HK\$8,916,000 as compared to that of approximately HK\$18,416,000 as at 31 March 2001.

The Group's gearing ratio as at 31 March 2002 was 0.12 (2001: 0.10), calculated based on the Group's total debts of HK\$47,292,000 (2001: HK\$19,820,000) over the Group's total assets of HK\$380,655,000 (2001: HK\$203,568,000).



Net Assets

As at 31 March 2002, the Group recorded total assets of approximately HK\$380,655,000 (2001: HK\$203,568,000) which were financed by liabilities of approximately HK\$129,784,000 (2001: HK\$61,394,000), minority interests of approximately HK\$23,666,000 (2001: HK\$13,953,000) and equity of approximately HK\$21,700,000. The Group's net asset value as at 31 March 2002 increased by 90.7% to approximately HK\$227,205,000 as compared to approximately HK\$119,130,000 as at 31 March 2001.

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollar, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year.

Contingent Liabilities

As at 31 March 2002, the Group had bills discounted with recourse of approximately HK\$16,556,000 (2001: Nil).

Material Acquisitions

During the year, United Gene Group has injected 19 gene inventions rights into the Group at HK\$95,000,000. Announcement on another proposed injection of genechip research and manufacturing operations has been made on 15 May 2002, subsequent to the year end. As the gene inventions rights have been injected near the financial year end, the contribution of these investments are not significant to the performance of the Group for the year ended 31 March 2002.

STAFF

As at 31 March 2002, the Group had 394 (2001: 369) employees from its various offices located in Australia, Malaysia, Hong Kong and the PRC.

The Group remunerates its employees based on their performance, work experience and the prevailing market price. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme.

D. CONCLUSION

Our core business, namely the trading and manufacturing sectors will remain as the driving sectors. Aggressive efforts will be made to maximize the Group's range of imported and self-manufactured specialty drug sales for the PRC market. We are also expecting to procure notable contributions in business performance earnings from our recent acquisition of companies involved in the genomic industry for the upcoming year.

Turning to Board matters, on behalf of the Board, I take this opportunity to welcome our new Chairman, Dr. Mao Yu Min, who is a pioneer scholar and a recognized industry expert in the area of life science, gene cloning and sequencing. The joining of Dr. Mao with his dynamic enthusiasms, vitality and directions will see greater developments and success for the Group. This will steer the Group towards breaking new and higher grounds in areas of pharmaceutical and genomic industry.

The Board also thanks Mr. Ho Chin Hou for serving as Chairman for Extrawell since our initial listing on the Main Board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). Mr. Ho will remain a director for the Company. His continual belief in finding best partnerships for the Group and his contribution in the interests of the Group will remain much revered and appreciated.

Ho Yu Ling
Executive Director

Hong Kong, 4 July 2002